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WAGE AND PENSION INCREASES: THE SOVIET WAR ON POVERTY

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WAGE AND PENSION INCREASES: THE SOVIET WAR ON POVERTY

Khrushchev's successors have made haste to identify themselves as leaders in the Soviet war on poverty. The Khrushchev program to increase wages and pensions of low-income groups, which will cost 5 billion rubles annually, has been continued and even speeded up in some instances. The new leadership, however, has avoided reviving some of Khrushchev's earlier promises that included a shorter workweek as well as an 11-billion-ruble bonanza in general wage increases and tax reductions.

The present program will (1) provide wage increases averaging 21 percent for 18 million of the 22 million workers in the service sectors of the economy (trade, restaurant, health, education, housing maintenance, personal service, government administration, and scientific research -- referred to in the USSR as the nonproductive sectors); (2) raise the legal minimum wage rate of urban workers by more than one-third and of rural workers by about one-half, (3) boost by more than one-third the minimum pensions of disabled workers and the minimum benefits to survivors, (4) place the 25 million to 30 million collective farmers and their families under a new state-wide social insurance system similar to the existing one for workers and employees, and (5) increase the number of technical workers on collective farms who are eligible for benefits under the social insurance system for workers and employees.

Most of the measures in the current welfare program represent a belated and partial fulfillment of earlier promises. The increase in wages for service workers and the increase in the minimum wage rate are taking place 3 years later than originally promised. Moreover, a second round of increases in minimum wage rates originally promised for 1965 apparently has been shelved. As a result, workers and employees will receive only three-fourths of the wage increases envisioned in the Seven Year Plan (1959-65). Also, workers and employees apparently are to continue paying income taxes and working a 41-hour week, in spite of earlier promises to abolish the former and shorten the latter. Collective farmers, too, may have reason to complain. Although their new pension system provides some much-needed security, their average pension will be only about one-half the size of the minimum pension for workers and employees.

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The attitude of the new leaders in approving these increases in wages and pensions and at the same time rejecting Khrushchev's more ebullient welfare measures illustrates their general style of political and economic leadership. They have been trying to restrain, to trim, to get under control the various programs that have been pressing against Soviet resources. Thus the large investment program for agriculture, announced by Brezhnev on 24 March, apparently is to be accompanied by some cutback in Khrushchev's "chemicalization" program. In addition, on 19 April, Kosygin announced that wage increases during the forthcoming Five Year Plan period (1966-70) will be tied to increases in the productivity of labor. 1/Yet, because commitments continue to multiply while rates of growth continue to decline, Khrushchev's legatees will continue to experience frustrations similar to those that bedeviled his decade of power.

1. Wage Increases for Workers and Employees

On 15 July 1964 the Supreme Soviet approved legislation to put into effect the final phase of the wage reform recommended by the 21st Party Congress in January 1959. The new law provides wage increases during 1964-65 for 18 million service workers and a rise in the minimum annual wage to 480 to 540 rubles (40 to 45 rubles a month) for all workers and employees. 2/

The wage increase, amounting to 3.3 billion rubles on an annual basis, will raise the average annual money earnings of service workers by 21 percent -- from 873 rubles to 1,056 rubles. The average percentage increase for the various groups of service workers, however, will range from 15 to 25 percent, as follows 3/:

	Average Annual Money Earnings (Rubles)		
	Before	After	Mcrease
	Wage Reform	Wage Reform	(Percent)
All service workers	873	1,056	21
Housing and communal economy Health Trade and restaurants Education Other	667	767	15
	707	869	23
	728	859	18
	833	1,042	25
	1,499	1,796	20

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The new earnings level for service workers -- 10 percent below the average annual earnings of workers and employees in industry, construction, and other "productive" branches 4/ -- will restore them roughly to the relative income position they held at the start of the wage reform in 1959. The comparative position of service workers, however, is distorted by the relatively high-income workers included in the "other" category, which includes those in government administration and probably those in scientific research.

The present round of wage increases for service workers was originally scheduled for introduction in 1962. Postponement of these increases until 1964-65 -- long after wage increases to other groups of workers and employees -- probably hampered recruitment in some of the higher skilled categories of service personnel, notably in education.

The minimum monthly wage of all workers and employees is to be raised in 1965 from 27 rubles in rural areas and 35 rubles in urban areas to 40 and 45 rubles, respectively. This increase originally was scheduled for 1962, and a further increase to 50 to 60 rubles was to be made in 1965. Failure to increase the minimum monthly wage to 50 to 60 rubles in 1965 precludes fulfillment of the promised increase in the average wage of workers and employees during the Seven Year Plan. According to the original plan, the average wage of workers and employees was to rise 26 percent 5/ -- from 943 rubles to 1, 188 rubles. Even with the 21-percent increase in the pay to service workers, the average earnings of all workers and employees will have increased by only 20 percent 6/ -- to 1,136 rubles a year -- by the end of 1965.

In an apparent effort to curry favor with the rank-and-file population, Premier Kosygin announced in December 1964 that the wage increases originally scheduled for the last half of 1965 would take place instead during the first half. 7/ This change will raise the wages of approximately 9 million service workers and will add 900 million rubles to the cost of the program in 1965.

2. Pension Increases for Workers and Employees

The security status of workers and employees has been further increased by a decree of 31 December 1964, which raised the minimum levels of disability and survivor pensions by an average of 35 percent. 8/Under the new law the size of minimum disability pensions, depending on the degree of disablement and whether or not the disability is jobconnected, will range between 16 and 50 rubles a month. The former

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minimum levels were 16 and 36 rubles. Failure to increase the minimum level of pensions for partial disability (16 rubles a month) is consistent with recent efforts to keep invalids in the labor force. Minimum survivor pensions have been raised from a range of 16 to 30 rubles a month, depending on the number of dependents, to a range of 21 to 50 rubles.

3. Pension Program for Collective Farmers

The second major welfare program, approved by the Supreme Soviet on 15 July 1964, will bring 25 million to 30 million collective farmers and their families under a state social insurance system beginning in 1965.* Until this program the establishment of pension programs at collective farms has been optional and entirely at the expense of the individual farm. As a result, many farms had no program at all, and those with a program usually failed to match the benefits received by workers at state enterprises.

Under the new program for collective farmers, benefits are smaller and eligibility requirements more stringent than those under the program for workers and employees. The minimum old age pension for collective farmers is 12 rubles a month -- for workers and employees, 30 rubles a month. Both the collective farmer and the worker and employee must work 25 years to be eligible for a full pension, but the worker and employee of retirement age can qualify for a partial pension after only 5 years whereas there is no provision for partial pensions for collective farmers. The retirement age for male collective farmers is 65 but for male workers and employees only 60 years. Nevertheless, collective farmers will benefit significantly from the new program. The new pension law will increase the number of collective farm pensioners from 3 million to between 6.5 million and 6.8 million, 9/ and the average size of pensions will increase from approximately 6 rubles a month to about 17 rubles a month. 10/ Thus more than 1 billion rubles will be added to the money incomes of collective farmers during 1965.

Funding provisions for the program, which is officially estimated to cost 1.3 billion to 1.4 billion rubles in 1965, 11/ limit the cost to the

^{*} Excluded from coverage under this program are collective farm members who work only on private plots as well as chairmen and certain technical workers who qualify for benefits under the program for workers and employees.

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state by requiring mandatory deductions from the gross revenues of the farms. In 1964, collective farms were required to contribute 2.5 percent of their gross revenues to a centralized social insurance fund, and in 1965, the first year of the program, they are required to contribute 4 percent. 12/ In addition, a state subsidy, averaging 400 million rubles a year during 1965-67, will be required to meet the estimated cost of the program. 13/ Although the direct outlays of the state are kept low by these funding provisions, the reaction of the relatively rich collective farms to subsidizing the pension programs of the poorer farms may create some headaches for the leadership.

A decree of 20 July 1964 by the Council of Ministers provided further social insurance coverage to collective farm chairmen, deputy chairmen, chief accountants, machine operators, and other technical workers on collective farms by making them eligible for benefits under the social insurance system for workers and employees. 14/ Collective farm chairmen and specialists with a higher or secondary specialized education have been eligible for a portion of state pension benefits since 1950, 15/ and MTS personnel who became collective farm members following the abolition of the MTS network in 1958 retained their eligibility for state social insurance benefits.

The additional cost resulting from the improved pension program of collective farm chairmen and specialists and from the increased minimum rates for disability and survivor pensions has not been disclosed. The 1965 plan figures indicate, however, that state social insurance payments for the current year are expected to increase by 8.7 percent, 16/ or about 200 million rubles, above the average annual rate of 6.8 percent during the preceding 4 years. 17/

4. Implications of the Welfare Program

The wage and pension increases ultimately will add 4.5 billion to 5.0 billion rubles to the annual income of consumers. This addition to consumers' income, plus other sources of new income such as price reductions and increased procurement prices, will raise per capita income by a substantially greater percentage than the average annual increase achieved during 1959-64. 18/ The regime thus is faced with the task of increasing the supply of consumer goods in order to match increased money incomes.

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5. <u>Unfulfilled Promises</u>

The current increases in welfare benefits represent only a partial fulfillment of promises made to people on the lower rungs of the economic ladder. Still unfulfilled are pledges originally made for implementation by 1965 that would have added approximately 11 billion rubles more to consumers' annual income and would have cut the workweek from 41 to 35 hours. If workers and employees had been given wage increases of 26 percent during 1959-65 as originally planned instead of 20 percent as is now indicated, they would have received an additional 4 billion rubles in 1965. Much of this sum would have come from the promised increase in the minimum wage rate to 50 to 60rubles per month. If the program to abolish the income tax on earnings of workers and employees had been pursued to completion as originally scheduled, they would have received another 7 billion rubles in 1965. According to the program announced at the 21st Party Congress in 1958, the level of tax-exempt income was to be raised in a series of steps until the tax was eliminated in 1965. The program proceeded on schedule in 1960 and 1961 when the exemption was raised to 60 rubles monthly. In September 1962 the tax reduction program was suspended because of other budgetary requirements, 19/ and to date no move has been made to reinstate the program. Unlike the recent welfare programs, elimination of the income tax would have benefited the more highly taxed middle-income workers and would have done little to increase the disposable incomes of the low-income groups.

Another stalled program is the planned reduction in the length of the workweek. The Seven Year Plan specified that the workweek would be cut from 41 to 40 hours in 1962 and that a shift to a 35-hour workweek would begin in 1964 and would be completed in 1968. The reduction of the workweek was to take place without a reduction in average weekly wages and would provide increased "pay" in the form of leisure. The equivalent value of this leisure in rubles, however, would not be the proportional part of the industrial payroll, because workers would be expected to put forth the same effort in 35 hours that they did in 41. The scheduled shortening of the workweek by 1 hour did not take place in 1962. In spite of a comment by Khrushchev that it would be part of the welfare program announced at the Supreme Soviet in July 1964, it apparently was dropped at the last moment. 20/ No official explanation has been given for failure to carry out the reduction, but failure to achieve planned productivity goals during the Seven Year Plan undoubtedly was an important consideration. The new leaders have not brought up the subject of the 35-hour workweek.

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